

Message Text

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PAGE 01 OSLO 01501 010753Z
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E.O. 11652: GDS
TAGS: MILI, PINT, PEPR, NO, OVIP (BROWN, HAROLD)
SUBJECT: SECDEF VISIT: ISSUES AND TALKING PAPER: F-16

1. BACKGROUND: NORWAY IS ONE OF THE FIVE PARTNERS IN THE F-16 MULTINATIONAL PROGRAM AND PLANS TO PURCHASE 72 AIRCRAFT WITH FIRST DELIVERIES SCHEDULED FOR JANUARY, 1980. THESE AIRCRAFT WILL BE FORMED INTO FOUR SQUADRONS AND WILL REPLACE THEIR F-104G, CF-104 AND F-5 A/B AIRCRAFT. REPLACEMENT IS NOT ON A ONE-TO-ONE BASIS, FOR WHICH NORWAY HAS BEEN CRITICIZED IN NATO. HOWEVER, THE GON HAS SAID THAT IT CONSIDERS THAT THE QUALITATIVE INCREASE IN THE CAPABILITY OF THE F-16 BALANCES OUT THE REDUCTION IN TOTAL AIRCRAFT. NORWEGIAN CONTRACTORS AND FIRMS ARE PRODUCING A CONSIDERABLE VARIETY OF COMPONENTS FOR THE AIRCRAFT--FOR THE ENGINE, THE AIRFRAME AND NUMEROUS AVIONIC ITEMS.

2. PROBLEM AREAS:
A. OFFSET. THE ISSUE OF ACHIEVING A 58 PERCENT COPRODUCTION SHARE WILL BE CONTINUING ONE HERE. NORWAY CURRENTLY HAS ACHIEVED APPROXIMATELY A 34-37 PERCENT OFFSET WHICH COULD IMPROVE IF A NORWEGIAN COMPANY IS AWARDED THE \$17-22 MILLION CONTRACT FOR THE ALR-69 COPRODUCTION. WE SENSE THAT RESPONSIBLE NORWEGIAN OFFICIALS INVOLVED IN THE PROGRAM

SECRET

SECRET

PAGE 02 OSLO 01501 010753Z

RECOGNIZE THAT THERE IS LITTLE HOPE OF THEM ACHIEVING THE FULL 58 PERCENT.

B. SIZE OF THE DEFENSE BUDGET DEDICATED TO THE F-16.
ANOTHER PROBLEM AREA IS THAT THE F-16 PURCHASES OVER THE NEXT FEW YEARS CONSIDERABLY DOMINATE NORWAY'S DEFENSE BUDGET--TO SUCH A DEGREE THAT ALMOST ALL OTHERFMS PURCHASES ARE BEING SLIPPED INTO THE MID-1980S. A NUMBER OF OTHER RELATIVELY HIGH

PRIORITY DEFENSE PROJECTS HAVE BEEN POSTPONED OR CANCELLED AS A RESULT OF THE HEAVY EXPENDITURES OF THE F-16. THIS HAS PROVOKED A CERTAIN AMOUNT OF OPPOSITION TO THE F-16 AMONG VARIOUS PARTS OF THE NORWEGIAN DEFENSE ESTABLISHMENT, EXPECIALLY AMONG THE OTHER SERVICES. NONETHELESS, THERE IS CONSIDERABLE POLITICAL SUPPORT STILL IN NORWAY FOR THE F-16 PROGRAM, THOUGH ALL ALONG PARTICIPATION IN THE COPRODUCTION PROGRAM WAS THE BIGGEST INDUCEMENT TO PARTICIPATION. WITH NORWAY'S CURRENTLY DIFFICULT ECONOMIC SITUATION, THIS CONTINUES TO BE THE CASE.

C. THIRD COUNTRY SALES. THE NORWEGIANS HAVE A LAW PROHIBITING SALES OF MILITARY ITEMS TO AREAS NOT ON AND "ACCEPTABLE" COUNTRY LISTS. THIS REGULATION HAS BEEN INTERPRETED BY THE GOVERNMENT TO INCLUDE ALL COUNTRIES EXCEPT FOR THE NATO COUNTRIES. AS A RESULT, THE NORWEGIANS HAVE STATED THEIR INABILITY TO PARTICIPATE IN THIRD COUNTRY F-16 SALES OUTSIDE NATO. EXTENSIVE NEGOTIATIONS WERE CONDUCTED BETWEEN OUR TWO GOVERNMENTS IN DECEMBER-JANUARY TO ARRIVE AT A SATISFACTORY SOLUTION TO THIS PROBLEM. AS A RESULT OF THESE NEGOTIATIONS, THE USG HAS STATED (JANUARY 28) THAT WE WILL MAKE EVERY EFFORT TO INSURE THAT NORWEGIAN-PRODUCED PARTS FOR THE F-16 WILL BE INITIALLY INSTALLED IN NATO AIRCRAFT. THIS SOLUTION APPEARS TO HAVE ALLEVIATED THE ISSUE AT LEAST FOR THE TIME BEING. HOWEVER, THE NORWEGIANS ARE INTERESTED IN PARTICIPATING IN DOWNSTREAM COPRODUCTION POSSIBILITIES AMONG OTHER THINGS FOR POSSIBLE ADDITIONAL US AIRCRAFT PURCHASES BEYOND THE INITIAL
SECRET

SECRET

PAGE 03 OSLO 01501 010753Z

650. HERE THE PORBLEM FOR NORWAY MAY BE THAT THEIR CONTINUING SHARE IN COPRODUCTION HINGES UPON BEING "REASONABLY COMPETITIVE." LABOR COSTS AND MATERIEL COSTS IN NORWAY ARE EXCESSIVE AND RISING AND NORWAY'S ABILITY TO REMAIN COMPETIVE IN THE FUTURE IS AT AMINIMUM QUESTIONALBE.

D. GAO REPORT. BY THE TIME YOU VISIT OSLO THE GAO'S LATEST REPORT ON THE F-16 WILL PRESUMABLY BE PUBLIC AND MAY OR MAY NOT RAISE PROBLEMS FOR THE NORWEGIANS. AS WE HAVE NOT SEEN THE TEXT OF THE REPORT WE HAVE NO WAY OF KNOWING.

3. TALKING POINTS: WE SEE NO PURPOSE TO BE GAINED IN YOUR RAISING F-16 ISSUES WITH THE NORWEGIANS DURING YOUR TALKS HERE. HOWEVER, IT IS POSSIBLE THAT THEY MAY RAISE WITH YOU BOTH THE LEVEL OF THEIR OFFSET AND (AS APPROPRIATE) THE RECENT GAO REPORT. WE RECOMMEND A STRAIGHTFORWARD AND FRANK APPRAISAL OF THE OFFSET POSSIBILITIES AND WHAT-EVER WE CAN TELL THEM ABOUT THE GAO REPORT.
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